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IN THE

Supreme Court of the United States

OCTOBER TERM, 1980

PETER M. ROBERTS,

Petitioner,

vs.

SEARS, ROEBUCK AND CO., a corporation,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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QUESTIONS PRESENTED

1. Can a plaintiff be deprived of his VIIth Amendment right to jury trial because he joined his claims for legal and equitable relief?

2. Under the Federal Rules of Civil Procedure can a defrauded plaintiff be compelled to forfeit either his right to a trial by jury or his right to rescind?

3. Can the fundamental rights of a plaintiff to relief be restricted by a rule of "election of remedies" that has no basis either in federal or state law?

TABLE OF CONTENTS

	PAGE
QUESTIONS PRESENTED	i
TABLE OF AUTHORITIES	iv
OPINIONS BELOW	1
JURISDICTION	2
CONSTITUTIONAL PROVISION INVOLVED	2
STATEMENT OF THE CASE	3
REASONS FOR GRANTING THE WRIT	9
The Proceedings At The Trial	10
The Remand For Rescission	12
The Second Appeal	13
The Jury Did Not Award "Past Profits"	14
I.	
The Second Decision Of The Court Of Appeals On Review Is In Conflict With Decisions Of This Court As Well As Decisions Of Other United States Courts Of Appeals	16
II.	
The Judgments Of The Court Of Appeals Unconstitutionally Require A Defrauded Plaintiff To Give Up His Right To A Jury Trial In Order To Recover The Wrongdoer's Unjust Enrichment	20
III.	
The Court Of Appeals Has Not Followed The Law Of Illinois Or Federal Law On Election Of Remedies	22
CONCLUSION	28

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TABLE OF AUTHORITIES

Cases

Altom v. Hawes, 63 Ill. App. 3d 659, 663, 380 N.E.2d 7, 9-10 (1978) 24
Aro Manufacturing Co., Inc. v. Convertible Top Replacement Co., Inc., 377 U.S. 476, 505 (1964) 14, 23
Beacon Theatres, Inc. v. Westover, 359 U.S. 500 (1959) 11, 16, 17, 18, 20
Bruce v. Bohanon, 436 F.2d 733, 736 (10th Cir. 1971) .. 18, 19
Dairy Queen, Inc. v. Wood, 369 U.S. 469, 477-78, 479, 480-481 (1962) 16, 17, 18, 21
Faber, Coe & Gregg, Inc. v. The First National Bank of Chicago, 107 Ill. App. 2d 204, 211, 246 N.E.2d 96, 99 (1969) 24
Federal Savings and Loan Insurance Corp. v. American National Bank and Trust Co. of Chicago, 392 F.2d 906, 912 (7th Cir. 1968) 24
Friederichsen v. Renard, 247 U.S. 207, 211-13 (1918) 23
Kennedy v. Lakso Company, Inc., 414 F.2d 1249, 1253 (3rd Cir. 1969) 18, 19, 21
McAfee v. Rockford Coca-Cola Bottling Co., 40 Ill. App. 3d 521, 526-27, 352 N.E.2d 50, 53-55 (1976) 11
Nunez v. The Superior Oil Co., 572 F.2d 1119 (5th Cir. 1978) 18, 20
Roberts v. Sears, Roebuck and Co., 573 F.2d 976 (7th Cir. 1978), cert. denied 439 U.S. 860 (1979) 1, 3, 4, 5, 9, 10, 12, 15, 25
Roberts v. Sears, Roebuck and Co., 471 F.Supp. 372 (N.D.Ill. 1979) 2, 3, 4, 5, 6, 13, 26
Roberts v. Sears, Roebuck and Co., 617 F.2d 460 (7th Cir. 1980) 2, 4, 6, 7, 8, 10, 13, 16, 26, 27
Ross v. Bernhard, 396 U.S. 531, 537-38 (1970) 16, 16-17
Simler v. Conner, 372 U.S. 221, 222 (1963) 16, 17, 21
Wilkinson v. Appleton, 28 Ill. 2d 184, 190 N.E.2d 727 (1963) 11
Zegers v. Zegers, Inc., 458 F.2d 726, 728 (7th Cir. 1972) 14

Constitutional Provisions

United States Constitution, Amendment VII 2, 9, 17, 20, 24
Illinois Constitution of 1870, Art. VI, § 12, at Smith-Hurd Ill. Annot. Stat., Constitution, Art. 7-End, p. 451 (1971) 25

Rules

Federal Rules of Civil Procedure:
Rule 8 ..... 21, 24
Rule 18 ..... 11, 21
Rule 38 21
Rule 39 21
Rule 42(b) 24
Rule 54(c) 11

Statutes

28 U.S.C. § 1254(1) 2
35 U.S.C. 284 14
Illinois Civil Practice Act of 1933, at Smith-Hurd Ill. Annot. Stat., ch. 110, § 44 and accompanying Historical and Practice Note by A. Jenner and P. Tone, pp. 157-59 (1968) 25

Treatises

4 G. Bogert, Trusts and Trustees § 946 (1935) 24
5 A. Corbin, Contracts § 1112, p. 599 (1964) 9
3 E. Devitt and C. Blackmar, Federal Jury Practice and Instructions § 83.01 (3d ed. 1977 at Supp. 1979, p. 39) 15
W. Mathes and E. Devitt, Federal Jury Practice and Instructions § 86.37, pp. 575-76 (1965) 14
1 G. Palmer, Restitution § 3.1, p. 230 (1978) 23
Restatement of Contracts 2d, Tentative Draft 14, § 392 (1979) 25
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PETER M. ROBERTS,

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

Petitioner, Peter M. Roberts, respectfully prays that a writ of certiorari be issued to review the decisions of the United States Court of Appeals for the Seventh Circuit in this case.

OPINIONS BELOW

The first opinion of the Court of Appeals in this case, reported in 573 F.2d 976 (1978), is printed in the appendix to this petition (App. 1a-17a). The opinion of the

United States District Court for the Northern District of Illinois on remand, reported in 471 F. Supp. 372 (1979), is printed at App. 18a-35a. The second opinion of the Court of Appeals, reported in 617 F.2d 460 (1980), is printed at App. 36a-48a.

JURISDICTION

The Court of Appeals entered its second judgment on March 12, 1980. A timely petition for rehearing, with suggestion for hearing en banc, was denied on June 17, 1980. (App. 49a) This Court has jurisdiction under 28 U.S.C. § 1254(1).

CONSTITUTIONAL PROVISION INVOLVED

United States Constitution, Amendment VII (1791)

In Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury, shall be otherwise re-examined in any Court of the United States, than according to the rules of the common law.

STATEMENT OF THE CASE

"This case involves the efforts of one of the nation's largest retail companies, Sears, Roebuck & Co. (Sears), to acquire through deceit the monetary benefits of an invention of a new type of socket wrench created by one of its sales clerks during his off-duty hours." (App. 1a-2a) In 1963 the petitioner, Peter M. Roberts, then 18 years old, was employed as a sales clerk in a Sears retail store in Gardner, Massachusetts. He invented and produced a prototype of a "quick release" ratchet wrench, a long needed tool of great importance to mechanics. This invention enabled a mechanic using it to change the size of the socket with one hand, and for the first time made the socket wrench fully usable as a one handed tool. He applied for a patent on his invention. In 1964, at the suggestion of the manager of the Sears store where he worked, he submitted his prototype to Sears in confidence. (App. 2a)

The sordid story of the dealings between Sears and the petitioner, including Sears' misrepresentations and concealment, the resulting agreement for the assignment of worldwide patent rights to Sears, with a royalty of 2¢ per unit up to a maximum of $10,000, is detailed in the first opinion of the court of appeals, (App. 2a-5a), and again in the district court's opinion on remand. (App. 18a-24a) Before signing the contract, Sears planned to sell several hundred thousand of the wrenches with an increased cost to Sears of only 20¢ per unit. "Within days after the signing of the contract, Sears was manufacturing 44,000 of plaintiff's wrenches per week —all with plaintiff's patent number prominently stamped on them—and within three months, Sears was

marketing them as a tremendous breakthrough. . . . Between 1965 and 1975, Sears sold in excess of 19 million wrenches, many at a premium of one to two dollars profit because no competition was able to market a comparable product for several years." (App. 4a-5a)

After the petitioner returned from military service abroad and had become a resident of Tennessee, he commenced this diversity action against the respondent, an Illinois corporation, in the United States District Court for the Northern District of Illinois in December of 1969, the requisite jurisdictional amount being involved. The complaint prayed for rescission of the agreement assigning the patent rights to the defendant, an injunction against further use by the defendant, imposition of a constructive trust upon the defendant, an accounting by the defendant and such further equitable relief as may be appropriate. In addition the complaint prayed that damages be awarded to plaintiff. (App. 36a) The prayer for an injunction was subsequently withdrawn. The petitioner demanded a jury trial. In addition to the proof of fraud, misrepresentations, confidential relationship and Sears' rapid commercial development of the device, the petitioner introduced evidence that the value of a reasonable royalty for the period up to the time of trial was $2,200,000 and the net incremental profits received by Sears from the use of the device during the same period amounted to $44,032,082. (App. 34a)

The case was submitted to the jury on three alternative counts: Count I charged that Sears was guilty of fraud; Count II that Sears had violated its confidential relationship with the petitioner; and Count III that Sears had negligently misrepresented the facts to the petitioner. The jury returned a verdict in favor of the petitioner on each count and on each count awarded the petitioner $1,000,000. These amounts were not cum-

ulative. The respondent filed an alternative motion for judgment N.O.V. or for a new trial, which the court denied. The petitioner's post trial motion sought rescission, and the entry of judgment in the amount of $44,000,000, the amount of incremental profits that the evidence showed the respondent had obtained by its fraud, or in the alternative the entry of an order directing that the amount of the respondent's profits be determined by a special master. The district judge denied the petitioner's motion on the ground that when the petitioner "permitted the case to go to the jury he had selected his legal remedy and could not later also seek his equitable relief." (App. 6a)

The petitioner appealed to the court of appeals and the respondent cross-appealed. The court of appeals stated: "[W]e affirm the district court's judgment against Sears on all three counts in plaintiff's complaint and the court's decision not to alter plaintiff's monetary award, but reverse the court's determination that it lacked the power to award rescission and remand to the district court for a determination of whether rescission is appropriate under the facts of this case." (App. 17a)

The respondent then filed a petition for certiorari to review the judgment of the court of appeals, insofar as it affirmed the judgment of the district court, and the petitioner filed a conditional petition for certiorari, seeking to review the judgment of the court of appeals only in the event that the respondent's petition was allowed. Both petitions were denied. 439 U.S. 860 (1979).

On remand the parties agreed that no further evidence was to be heard, and the trial court considered whether, on the pleadings and the evidence presented to the jury, the petitioner was entitled to rescission. (App. 19a) The court found that the verdict of the jury had

awarded the petitioner only damages for the injury inflicted on him by Sears, and had not included Sears' unjust enrichment. (App. 32a) The court therefore concluded that the petitioner was entitled to rescission of the contract, return of the patents to the petitioner, and an accounting by Sears to determine the amount of money by which it has been unjustly enriched through its use of petitioner's invention. (App. 33a-34a)

The respondent appealed. In its second opinion a majority of the court of appeals stated: "In our prior opinion, we repeatedly referred to the 'return of plaintiff's patent' and when we used the word 'rescission,' we used it in the context of returning the plaintiff's patent. We did not say that the plaintiff could under any theory upon remand be entitled to restitution or additional damages or profits. In fact, we expressly said that the plaintiff *did* elect his remedy as to *past* damages or profits up to the time of the jury verdict and that return of his patent might be the most effective way of insuring that the plaintiff receive the *future* benefits of the patent. We remanded the case for the purpose of determining whether as an equitable matter the plaintiff should recover his patent. In retrospect, we would have been better advised to use some other word such as cancellation, termination or forfeiture of the June 15, 1965 agreement, or reconveyance or reassignment of plaintiff's patent, but at the time, 'rescission' seemed to be an appropriate word to cover the process of cancelling the agreement and returning the patent." (App. 41a-42a)

The majority further held that the law does not permit the remedy the district court awarded upon remand, saying: "In the earlier opinion, we accepted Illinois law as to election of remedies for past damages or profits, as had the District Court immediately after the jury ver-

dict. We parted with Illinois law only to give the plaintiff an opportunity to protect himself against future damages." (App. 42a) The majority opinion said that the petitioner had "prosecuted to judgment his claim for money damages at common law" and received $1,000,000 for Sears' fraud and misrepresentation, "representing damages up to the entry of judgment." This, it was said, "constitutes an election under Illinois law." Accordingly, the majority denied petitioner's claim for what the opinion termed "his demands for further damages covering the same period of time for 'disgorgement of defendant's unjust enrichment'." The majority held that restitution of this kind was "an equitable remedy with no right to a trial by jury," and concluded that "[b]y submitting his damage claim to the jury, the plaintiff elected that remedy." (App. 43a)

The majority vacated the district court's decree and memorandum opinion and remanded with directions to enter a final judgment when Sears delivered patent assignments to petitioner. "In order to avoid if possible any future misunderstanding, the effect of the assignments will be that the defendant owned all of the patent rights from June 15, 1965 to January 20, 1977, and the plaintiff shall be considered the owner from January 20, 1977 on. The plaintiff will not be entitled to sue for any infringement occurring prior to January 20, 1977." (App. 44a) The majority also stated that if the plaintiff sued Sears for infringement after January 20, 1977, Sears could attack the validity of the patent. (App. 45a)

In his dissent, (App. 45a-48a), Judge Swygert stated that the prior holding of that court which characterized the jury's award as the "measure of *past* profits earned by Sears up to the time of trial," prohibited any

recovery of profits prior to the date of the original judgment. (App. 45a) He also stated: "Because we have held that the contract was void after January 1, 1977, profits earned by the defendant after that date must be disgorged to prevent unjust enrichment. Because the jury was never asked to award damages for this period, there is no possible double recovery or factual inconsistency in this result." (App. 47a) Judge Swygert characterized Sears' conduct as "monumental fraud," and concluded that the majority's return of the patent to petitioner with the opportunity to sue Sears for infringement, subject to a defense of invalidity, "not only condones the proven unethical conduct of Sears but is manifestly unjust to the plaintiff." (App. 48a)

REASONS FOR GRANTING THE WRIT

The judgment below frames an erroneous rule of widespread effect eliminating relief traditionally afforded to a plaintiff fraudulently induced by the defendant to enter into a contract. The court of appeals has, in two successive (and incompatible) opinions, framed a rule which places an unconstitutional burden on the exercise of a plaintiff's right to a jury trial. The rule of these decisions, as stated in the court of appeals' second opinion, is in conflict with rulings of this Court and those of other courts of appeals. That rule announces a rigid doctrine of election of remedies not conforming to either state or federal law.

That Sears induced the plaintiff to assign his invention to it by means of fraud has been determined as a matter of fact. The questions now presented concern the remedy that a defrauded plaintiff can obtain in a diversity action. The primary remedy sought by the petitioner is a familiar one:

> "If the defendant has received and made profitable use of the plaintiff's ideas and devices, the plaintiff can get judgment for the amount of the net profits of such use." (5 A. Corbin, Contracts § 1112, p. 599 (1964))

The court of appeals has held, for erroneous reasons, that petitioner is barred from that traditional remedy. That court has arrived at a rule that victims of deliberate fraud must either surrender their Seventh Amendment right to a jury trial or forfeit their right to recover the wrongdoer's unjust enrichment.

In its first opinion, (573 F.2d 976-86; App. 1a-17a), the court of appeals concluded "that going to the jury

under a past profits instruction did not bar plaintiff from seeking rescission and thereby possibly recovering his patent." (App. 16a-17a) Its conclusion was right but its factual predicate was wrong. This case had *not* been submitted "to the jury under a past profits instruction." As is shown in detail (*infra* pp. 14-16), the instruction in question was definitely not a past profits instruction.

In its second opinion, (617 F.2d 460-67; App. 36a-48a), the court of appeals totally abandoned the basis of its first opinion. It now describes the jury's award "for defendant's fraud and misrepresentation" as representing not past profits but "damages up to the entry of judgment." (App. 42a, 43a) The court repeatedly refers to the plaintiff's election between "past damages or profits," (App. 42a), and it now purports to apply the Illinois law of election of remedies and holds: "By submitting his damage claim to the jury, the plaintiff elected that remedy." (App. 43a)

To understand how the court of appeals reached these untoward results, it is necessary to review the progress of the case through the district court, the first opinion of the court of appeals, the opinion of the district court on remand, and the majority and dissenting opinions in the court of appeals on the second appeal.

THE PROCEEDINGS AT THE TRIAL

The petitioner alleged that Sears had acquired his invention by fraud. Sears sharply disputed its liability and asserted that Roberts had ratified the agreement. A factual determination of the moral quality of Sears' conduct—negligent or fraudulent—was basic to the right of the petitioner to any relief, whether legal or equitable. The affirmative defense of ratification also

raised factual issues. Because he could not predict how the facts would be determined, petitioner alleged his claim in multiple counts, and ultimately went to trial on the three that have been mentioned: fraud, breach of confidential relation, and negligent misrepresentation.

The petitioner demanded a jury trial, as he was clearly entitled to do under *Beacon Theatres, Inc. v. Westover*, 359 U.S. 500 (1959), because of the common questions of fact underlying his right to any relief in this case, whether in tort, in quasi-contract, or in equity, and also because under Illinois law only damages, not profits, can be recovered for *negligent* misrepresentation. *Wilkinson v. Appleton*, 28 Ill. 2d 184, 190 N.E.2d 727 (1963); *McAfee v. Rockford Coca-Cola Bottling Co.*, 40 Ill. App. 3d 521, 526-27, 352 N.E.2d 50, 53-55 (1976). The petitioner prayed for rescission, the return of his patent, an accounting for Sears' profits during the period that Sears had been exploiting it, and damages. Under this Court's Federal Rules of Civil Procedure the petitioner had the right to join his legal and equitable claims in a single complaint, (F.R.C.P. Rule 18), and except in cases of default "every final judgment shall grant the relief to which the party in whose favor it is rendered is entitled . . . ." F.R.C.P. Rule 54(c).

During the instruction conference the district court ruled that by asking for a jury trial, the petitioner had elected to recover damages and had thereby waived his rights to rescission, to an accounting, and to the return of Sears' profits. (App. 51a) For that reason the court refused an instruction tendered by the petitioner which told the jury that if they found for the petitioner on Counts I and II they must award him the profits Sears had realized from the exploitation of plaintiff's invention. (App. 54a) The judge then dictated the instruction which

did not mention the petitioner's right to recover Sears' profits if they found that it had been guilty of fraud or had violated a confidential relationship. Instead, the judge's instruction told the jury that under Counts I and II they "may" take profits into account in determining the plaintiff's damages. (App. 61a) The instruction on Count III advised the jury that in determining the plaintiff's damages they could take into account a reasonable royalty. The jury returned noncumulative verdicts for petitioner in the identical amount on all three counts. The district court denied the petitioner's post trial motion, which requested the judge to conduct an accounting to determine the amount of Sears' profits. Judgment was entered on all three verdicts.

THE REMAND FOR RESCISSION

In its first opinion the court of appeals affirmed the judgment of the trial court as to the monetary award. It went on to state erroneously that "[b]ased on the jury instruction, plaintiff will receive one million dollars as the measure of *past* profits earned by Sears up to the time of trial." (App. 16a) The court of appeals also held that it was not bound by the Illinois law of election of remedies. It remanded to the district court for an initial "determination of whether rescission is appropriate under the facts of this case." (App. 17a)

On remand the district court reviewed the evidence and the authorities in Illinois and elsewhere concerning the availability of rescission as a remedy for fraud or the breach of a confidential relationship and concluded that the court of appeals had not held that rescission means one thing for this petitioner and another for other litigants. The court decided that there was no reason to depart from the Illinois remedy of rescission for fraud

and breach of confidential relationship, and therefore entered a decree of rescission. The court rejected the petitioner's contention that he had presented evidence to the jury which was adequate to sustain an award of the net incremental profits Sears had earned from his invention, less the $1,000,000 jury award. The judge decided that there should be an accounting and stated: "Whether by the accounting it will be determined that the amount he is entitled to receive from Sears is $44,032,082, reduced by the $1,000,000 jury verdict is a matter to be seen." (App. 34a-35a)

THE SECOND APPEAL

On the second appeal, the court of appeals abandoned its former position that the jury's award had represented Sears' past profits. It now adopted the position taken by the district court during the trial, and held: "Restitution for the disgorgement of unjust enrichment is an equitable remedy with no right to a trial by jury. . . . By submitting his damage claim to the jury, the plaintiff elected that [the damage] remedy." (App. 43a) In its opinion of March 12, 1980, the court also stated that the effect of the defendant's reassignment of the patents to the plaintiff would be that Sears "owned all of the patent rights from June 15, 1965 to January 20, 1977, and the plaintiff shall be considered the owner from January 20, 1977 on." (App. 44a) The court also said that the defendant, if sued for an infringement that took place after January 20, 1977, could attack the validity of the patent. The judgment of the district court was vacated and the case was remanded for further proceedings consistent with the opinion of the court of appeals.

THE JURY DID NOT AWARD "PAST PROFITS"

As the court of appeals has now tacitly recognized, its former description of the instruction as calling for an award of past profits was completely erroneous. That instruction was given by the district judge after he had specifically refused a "past profits" instruction tendered by the petitioner on the ground that petitioner had waived his right to rescind and recover Sears' profits by submitting his case to the jury. (App. 51a, 53a-54a) The instruction that was given is definitely *not* a past profits instruction. Its key provision appears to have been derived from a form of instruction used in patent infringement cases after the Patent Code (35 U.S.C. 284) was amended in 1946 to prohibit recovery of the defendant's profits in an infringement case. *See*, W. Mathes and E. Devitt, *Federal Jury Practice and Instructions* § 86.37, pp. 575-76 (1965).

In *Aro Manufacturing Co., Inc. v. Convertible Top Replacement Co., Inc.*, 377 U.S. 476 (1964), the effect of the 1946 amendment was described. "By the 1946 amendment, . . . the statute was changed to approximately its present form, whereby only 'damages' are recoverable. The purpose of the change was precisely to eliminate the recovery of profits as such and allow recovery of damages only." 377 U.S. at 505. (The damages awarded in a patent case involving deliberate infringement may be trebled by the judge. 35 U.S.C. 284) The effect of the amendment was also described in *Zegers v. Zegers, Inc.*, 458 F.2d 726, 728 (7th Cir. 1972).

Although the instruction that was given to the jury in this case, and approved by the court of appeals, was derived from infringement cases in which recovery of profits is forbidden, it is already being cited as a precedent for use in non-infringement actions for fraud and

deceit where profits *are* recoverable. *See, e.g.*, 3 E. Devitt and C. Blackmar, *Federal Jury Practice and Instructions* § 83.01 (3d ed. 1977 at Supp. 1979, p. 39):

> "§ 83.01 *Action for Fraud and Deceit—Plaintiff's Claim*
>
> NOTES
>
> For jury submission as to confidential relationship imposing fiduciary responsibilities, in patent assignment case, see Roberts v. Sears Roebuck & Co., 573 F.2d 976 (7th Cir. 1978), cert. denied 439 U.S. 860, 99 S.Ct. 179, 58 L.Ed.2d 168."

Apart from its origin and use in an area of the law in which recovery of past profits is forbidden, the meaning of the instruction is clear on its face. The trial judge knew that the instruction he gave was not designed to call for a determination of Sears' past profits. That's why he gave it. Sears, too, knew that the instruction did not call for a determination of its own past profits. Sears said so, both in writing and orally in response to the petitioner's post trial request that the court itself grant restitution of Sears' unjust enrichment since the jury had not been allowed to determine Sears' profits:

> "These instruction and [verdict] forms required any jury award to be for money damages exclusively." (Defendant's Memorandum In Opposition To Plaintiff's Motion For Rescission, etc., March 11, 1977, at 1, bracketed material added)
>
> * * * * *
>
> "The instructions . . . asked this jury to return an award of money damages and money damages is an entirely different concept than an accounting for profits." (Tr. of March 16, 1977)

The jurors also understood that they were called upon to determine only the amount of the damages suffered by the plaintiff—which could be measured by the value of a

reasonable royalty—rather than the harvest reaped by the fraudulent defendant. They were told that they *may*—which means that they *need not*—take into account the defendant's past profits in awarding the plaintiff's damages. It is upon this basis that the jury awarded the same amount as damage to the plaintiff caused by the defendant's negligence as they did for the defendant's deliberate fraud and breach of a confidential relationship.

I.

THE SECOND DECISION OF THE COURT OF APPEALS ON REVIEW IS IN CONFLICT WITH DECISIONS OF THIS COURT AS WELL AS DECISIONS OF OTHER UNITED STATES COURTS OF APPEALS.

The court of appeals held:

> "Restitution for the disgorgement of unjust enrichment is an equitable remedy with no right to a trial by jury. [Citations] By submitting his damage claim to the jury, the plaintiff elected that remedy." (App. 43a)

Those two sentences are the core of the second opinion of the court of appeals in this case. They are in conflict with the principles laid down in the following decisions of this court: *Ross v. Bernhard*, 396 U.S. 531 (1970); *Simler v. Conner*, 372 U.S. 221 (1963); *Dairy Queen, Inc. v. Wood*, 369 U.S. 469 (1962); *Beacon Theatres, Inc. v. Westover*, 359 U.S. 500 (1959).

In *Ross v. Bernhard*, after referring to *Beacon Theatres* and *Dairy Queen*, this Court said: "[W]here equitable and legal claims are joined in the same action, there is a right to jury trial on the legal claims which must not be infringed either by trying the legal issues as

incidental to the equitable ones or by a court trial of a common issue existing between the claims. The Seventh Amendment question depends upon the nature of the issue to be tried rather than the character of the overall action." 396 U.S. at 537-38.

In *Simler v. Conner*, 372 U.S. 221 (1963), this Court held that a claim for cancellation of a contract on the ground that it was procured by fraud and overreaching did not justify denial of a plaintiff's demand for a jury trial in a diversity case, even though there would surely have been no right to a jury trial if the diversity action had been brought in the state court. The Court relied upon the *Beacon Theatres-Dairy Queen* line of cases for this statement of the principle which must govern this case and those like it:

> "In diversity cases, of course, the substantive dimension of the claim asserted finds its source in state law, [citations], but the characterization of that state-created claim as legal or equitable for purposes of whether a right to trial by jury is indicated must be made by recourse to federal law." 372 U.S. at 222.

As applied to fraud cases, the "substantive dimension" of a victim's claim is the recognized right under the law of all States to require the wrongdoer to disgorge his unjust enrichment. Whether that claim is characterized as equitable under the law of Illinois or any other State is immaterial in determining the right to a trial by jury in a federal diversity action. Federal law determines the right to a trial by jury. In the present federal diversity action, however, the court of appeals has squarely held that by asserting his federal constitutional right to a trial by jury, the petitioner forfeited his right to rescind the fraudulent transaction and to recover the profits that Sears had obtained by its fraud.

In *Dairy Queen, Inc. v. Wood* this Court stated: "The respondents' contention that this money claim [for trademark infringement] is 'purely equitable' is based primarily upon the fact that their complaint is cast in terms of an 'accounting,' rather than in terms of an action for 'debt' or 'damages.' But the constitutional right to trial by jury cannot be made to depend upon the choice of words used in the pleadings." 369 U.S. at 477-78. "The legal remedy cannot be characterized as inadequate merely because the measure of damages may necessitate a look into the petitioner's business records." 369 U.S. at 479. As Mr. Justice Harlan put it in his concurring opinion: "The fact that 'an accounting' is sought is not of itself dispositive of the jury trial issue. To render this aspect of the complaint 'truly equitable' it must appear that the substantive claim is one cognizable only in equity or that the 'accounts between the parties' are of such a 'complicated nature' that they can be satisfactorily unraveled only by a court of equity. . . . A jury, under proper instructions from the court, could readily calculate the damages flowing from this alleged trademark infringement, just as courts of law often do in copyright and patent cases." 369 U.S. at 480-81.

The *Beacon Theatres-Dairy Queen* line of decisions was cited to the court of appeals on both appeals in this case. Those decisions are not mentioned in either of the opinions of that court.

The decisions of the court of appeals are also in conflict with the following decisions of courts of appeals: *Kennedy v. Lakso Company, Inc.*, 414 F.2d 1249 (3rd Cir. 1969); *Bruce v. Bohanon*, 436 F.2d 733 (10th Cir. 1971); *Nunez v. The Superior Oil Co.*, 572 F.2d 1119 (5th Cir. 1978).

In *Kennedy v. Lakso Company, Inc.*, the Third Circuit said:

> "While it is true that equity traditionally has had jurisdiction in actions for an accounting, it has always been recognized that there may be a suit for accounting at law and indeed the essential ingredient of equity's jurisdiction has been the complicated nature of the accounting." 414 F.2d at 1253.

Bruce v. Bohanon, 436 F.2d 733 (10th Cir. 1971), was a mandamus action to compel the district judge to vacate an order which denied a trial by jury on the ground that the complaint contained only equitable issues. The complaint alleged that the plaintiffs had confidentially disclosed certain business information to the defendants. Thereafter, it was alleged, the defendants wrongfully appropriated the confidential information to their own benefit. The plaintiffs sought a determination that they had an equitable right to participate with the defendants in the development of the project which was the product of the confidential information, and they also sought an accounting in connection with that equitable claim. The court pointed out that the fact that an accounting was sought does not of itself bar the right to a jury trial. "Rather," the court said, "we must look beyond the relief sought and determine the true nature of the underlying claim upon which the prayer for relief is itself predicated." 436 F.2d at 736. So viewed, the court held that the core issue in the case was whether or not there had been a wrongful appropriation—a legal issue which required a trial by jury. The plaintiff was *not* barred from the full relief he sought.

In the present case, although the core issue was the same—had there been a wrongful appropriation—the petitioner's right to full relief was barred.

Nunez v. The Superior Oil Co., 572 F.2d 1119 (5th Cir. 1978), involved an action to cancel oil leases for breach of their terms. In addition to cancellation the plaintiff sought damages he sustained as a result of the breach. Those damages included the value of the entire production attributed to his interest in the oil lease from the date of the breach. The defense was the existence of extenuating circumstances. The court held that the question of the existence of extenuating circumstances depended largely upon whether the defendant had acted reasonably under the circumstances. Characterization of the defendant's conduct was an issue common to both the legal and equitable claims and therefore a jury trial was required. The plaintiff's equitable right was not forfeited by the jury trial of the common issue of fact.

In the present case the characterization of the defendant's conduct—negligent or fraudulent—was an issue common to both the legal and equitable claims, as were some of Sears' affirmative defenses, but the petitioner's equitable right was held to have been forfeited by the jury trial of the common issues of fact.

II.

THE JUDGMENTS OF THE COURT OF APPEALS UNCONSTITUTIONALLY REQUIRE A DEFRAUDED PLAINTIFF TO GIVE UP HIS RIGHT TO A JURY TRIAL IN ORDER TO RECOVER THE WRONGDOER'S UNJUST ENRICHMENT.

Since *Beacon Theatres, Inc. v. Westover*, 359 U.S. 500 (1959), the right to a trial by jury has been determined by the nature of the issues to be tried. If an issue of fact is of a kind that was triable to a jury prior to the adoption of the Seventh Amendment, it remains so triable in the federal courts.

From the outset of this case in 1969 the petitioner has sought both legal and equitable relief and demanded a trial by jury. He was entitled to do so under Rules 8, 18, 38 and 39 of the Federal Rules of Civil Procedure. The petitioner's claims for rescission of the contract, an accounting for Sears' profits, the return of his patent and damages remained constant throughout the case. A plaintiff has a right to a jury trial in a quasi-contract action to recover the proceeds of unjust enrichment. "[I]t has always been recognized that there may be a suit for accounting at law. . . ." *Kennedy v. Lakso Company, Inc.*, 414 F.2d at 1253. In addition the defendant asserted ratification of the agreement as an affirmative defense. Whether the defendant's conduct was deliberately fraudulent or merely negligent, and whether the plaintiff had ratified the transaction are issues that were triable by jury at common law.

Most of the authorities which we have cited have involved cases in which trial by jury had been totally denied. That difference, however, is not significant. The cases would be identical if, for example, the plaintiff in *Dairy Queen, Inc. v. Wood* had been compelled to abandon his claim for accounting because he had demanded a jury trial. In *Simler v. Conner* the plaintiff was not required to give up his right to cancel the contingent fee contract that had been obtained by fraud because he demanded a trial by jury. So too, in *Kennedy v. Lakso Company, Inc.*, the plaintiff was not required to give up his claim for recovery of the infringer's profits in order to obtain a jury trial upon the issue of damages.

Just as the right to a trial by jury is not lost because legal and equitable relief is sought in the same complaint, so the right to equitable relief cannot con-

stitutionally be denied, we submit, solely on the ground that a jury trial of common issues of fact has been demanded.

III.

THE COURT OF APPEALS HAS NOT FOLLOWED THE LAW OF ILLINOIS OR FEDERAL LAW ON ELECTION OF REMEDIES.

In this diversity action the court of appeals has announced and applied a harsh and antiquated doctrine of election of remedies that is not the law of Illinois or of the federal courts. In doing so it has established precedents that frustrate the continuing efforts of courts and legislative bodies to take the profit out of fraud.

Different errors were made by the court of appeals in denying an accounting for Sears' unjust enrichment profit *before* and *after* Sears' fraud was adjudicated. In its first opinion an accounting for Sears' profits was barred on the ground that those profits were included in the petitioner's judgment, and in its second opinion the court denied an accounting for profits for the period after the judgment by limiting petitioner to the inadequate remedy of a patent infringement action in which only damages—not profits—are recoverable. The first ruling permitted the wrongdoer to retain the profit it reaped from its fraud during the first two-thirds of the life of the patent, and the second ruling covered the remaining period.

In this case the difference between petitioner's damages and Sears' profits is potentially great, but the moral injustice of the precedents the court has established is the same whether the financial difference is great or small.

The difference between a plaintiff's damages and a defendant's profits is well understood. Describing that difference, common in patent litigation, as "the important distinction between 'damages' and 'profits'," this Court quoted an older definition that profits are "what the infringer makes" and damages are "what the owner of the patent loses." *Aro Manufacturing Co., Inc. v. Convertible Top Replacement Co., Inc.*, 377 U.S. 476, 505 (1964). In other words: "Damages are awarded to compensate the injured party for harm caused by the tort, whereas restitution is aimed at depriving the fraudulent party of benefits obtained by the tort." 1 G. Palmer, *Restitution* § 3.1, p. 230 (1978). Here the court of appeals permits Sears to keep the enormous profits it received for the erroneous reason that petitioner's remedy for those benefits was barred by his recovery of a different thing, his damages.

All this was done in the name of the doctrine of election of remedies. Long before the Federal Rules of Civil Procedure were adopted in 1938, this Court had expressed its dissatisfaction with that doctrine. In *Friederichsen v. Renard*, 247 U.S. 207, 211-13 (1918), this Court said that the doctrine of election of remedies "has never been a favorite of equity" and that to hold the plaintiff "made a fatal choice of an inconsistent remedy, would be to subordinate substance to form of procedure. . . ." In contrast to the Seventh Circuit's attitude in 1980, this Court said in 1918: "At best this doctrine of election of remedies is a harsh, and now largely obsolete, rule, the scope of which should not be extended. . . ." *Id.*

It has been pointed out that under the Federal Rules of Civil Procedure, "[r]ules that put plaintiffs to an election of remedies no longer are applicable since under

Rule 8(e)(2) parties are encouraged to set forth all possible claims for relief regardless of their nature or consistency." 4 C. Wright and A. Miller, *Federal Practice and Procedure* § 1044, p. 152 (1969). And with respect to the trial of cases in which multiple claims have been asserted, Rule 42(b) provides: "The court, in furtherance of convenience or to avoid prejudice, . . . may order a separate trial of any claim . . . or of any separate issue or of any number of claims, cross-claims, counterclaims, third-party claims, or issues, always preserving inviolate the right of trial by jury as declared by the Seventh Amendment to the Constitution. . . ."

In *Faber, Coe & Gregg, Inc. v. The First National Bank of Chicago*, 107 Ill. App. 2d 204, 211, 246 N.E.2d 96, 99 (1969), the court stated:

> "From our review of the authorities we believe the Illinois cases to be in agreement with the United States Court of Appeals for the Seventh Circuit, who said in National Lock Co. v. Hogland, 101 F2d 576, at page 587, and in Federal Savings & Loan Ins. Co. v. American Nat. Bank & Trust Co. of Chicago, 392 F2d 906 at page 912:
>
> 'The formal doctrine of election of remedies by judicial decision has been confined gradually to its true remedial purpose as a doctrine of substance; and as stated by an eminent authority on trusts and trustees, should be confined to cases "where (1) double compensation of the plaintiff is threatened or (2) the defendant has actually been misled by the plaintiff's conduct or (3) res adjudicata can be applied." Bogert, Trusts and Trustees, 1935 Vol. IV, § 946'."

To the same effect are *Altom v. Hawes*, 63 Ill. App. 3d 659, 663, 380 N.E.2d 7, 9-10 (1978); *Federal Savings and Loan Insurance Corp. v. American National Bank and Trust Co. of Chicago*, 392 F.2d 906, 912 (7th Cir. 1968).

The erroneous treatment of the election doctrine began in the first opinion of the Seventh Circuit with the statement: "Under the Illinois cases cited by Sears, a plaintiff had to elect his remedies at the time of filing suit because Illinois had retained separate courts of equity and courts of law." (App. 15a) Illinois has not had separate courts of law and equity at least since its Constitution of 1870, which provided (Art. VI, § 12): "The circuit courts shall have original jurisdiction of all causes in law and equity. . . ." Smith-Hurd Ill. Annot. Stat., Constitution, Art. 7-End, p. 451 (1971). And the Illinois Civil Practice Act of 1933 provided for the joinder of legal and equitable claims even *before* the Federal Rules of Civil Procedure were adopted. *See*, Smith-Hurd Ill. Annot. Stat., ch. 110, § 44 and accompanying Historical and Practice Note by A. Jenner and P. Tone, pp. 157-59 (1968).

In both the federal and the Illinois legal systems the relevant principles and modern decisions on the doctrine of election of remedies are the same. A choice of an inconsistent remedy is not enough to bar alternative relief. For the doctrine to apply a party must have gained an advantage or his opponent must have suffered a detriment, *i.e.*, the facts must create an estoppel. The Courts in both systems apply the principles stated in § 392 of Tentative Draft 14 of the Restatement of Contracts 2d (1979):

> "If a party has more than one remedy under the Rules stated in this Chapter, his manifestation of a choice of one of them by bringing suit or otherwise is not a bar to another remedy unless the remedies are inconsistent and the other party materially changes his position in reliance on the manifestation."

Thus under the election doctrine of Illinois and of the federal courts petitioner's judgment at law for his damages does not bar the standard remedy of an accounting for Sears' unjust enrichment profits. The two remedies are not actually inconsistent, since a plaintiff's damages are not the same as a defendant's profits. But even if not consistent, the election of one would not bar the other. There is no basis for an estoppel. Sears was not misled to believe that only an action for damages was asserted: both remedies were sought from the outset. *Res judicata* is not applicable. Any danger of double compensation to petitioner or unfair detriment to Sears would be avoided in the accounting which, as the district court pointed out would, under Illinois law, include "an adjustment of the equities between the parties." (App. 33a)

The court of appeals denied accounting for Sears' unjust enrichment profits that have continued since the entry of the judgment of January 20, 1977. The court does not state any reason for this inequitable ruling. The reason advanced for barring an accounting for the pre-judgment period (that petitioner "elected" to recover damages up to the date of the original judgment) cannot apply after the original judgment. Judge Swygert (who was not a member of the original panel and apparently regarded himself as bound by the law of the case on other issues) dissented for this reason, saying: "In my opinion, Judge Leighton was eminently correct in ordering an accounting" for the period from January 1, 1977 to the date of accounting. "Not only was he following the law of the case as pronounced by this court in our first opinion and the mandate that issued, but he came to a result which the facts, the law of Illinois, and the principles of equity required." (App. 46a-47a)

On March 12, 1980, the majority announced that the effect of their holding would be that Sears "owned all of the patent rights from June 15, 1965 to January 20, 1977, and petitioner shall be considered the owner from January 20, 1977 on." (App. 44a) The majority disregarded the fact that petitioner cannot now license or have the use of his patent during the three years from January, 1977, to the date of the court's *nunc pro tunc* transfer in March, 1980. Petitioner's United States patent, moreover, will expire on September 27, 1982, and the remaining year and one-half of the life of that patent will not permit a meaningful license.

Thus even if the erroneous theory that the majority of the court of appeals adopted for denying pre-judgment restitution were correct, a grave injustice would still be done to the plaintiff, as Judge Swygert pointed out: "By denying the plaintiff an accounting for the period after which his damages were assessed but before he was in a position to benefit from the return of his patents, the majority has, with no justification, left a substantial gap in the plaintiff's rightful recovery." (App. 47a) Judge Swygert concluded: "For me this result not only condones the proven unethical conduct of Sears but it is manifestly unjust to the plaintiff." (App. 48a)

CONCLUSION

WHEREFORE petitioner, Peter M. Roberts, respectfully prays that a writ of certiorari be issued to review the decisions of the United States Court of Appeals for the Seventh Circuit in this case.

Respectfully submitted,

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